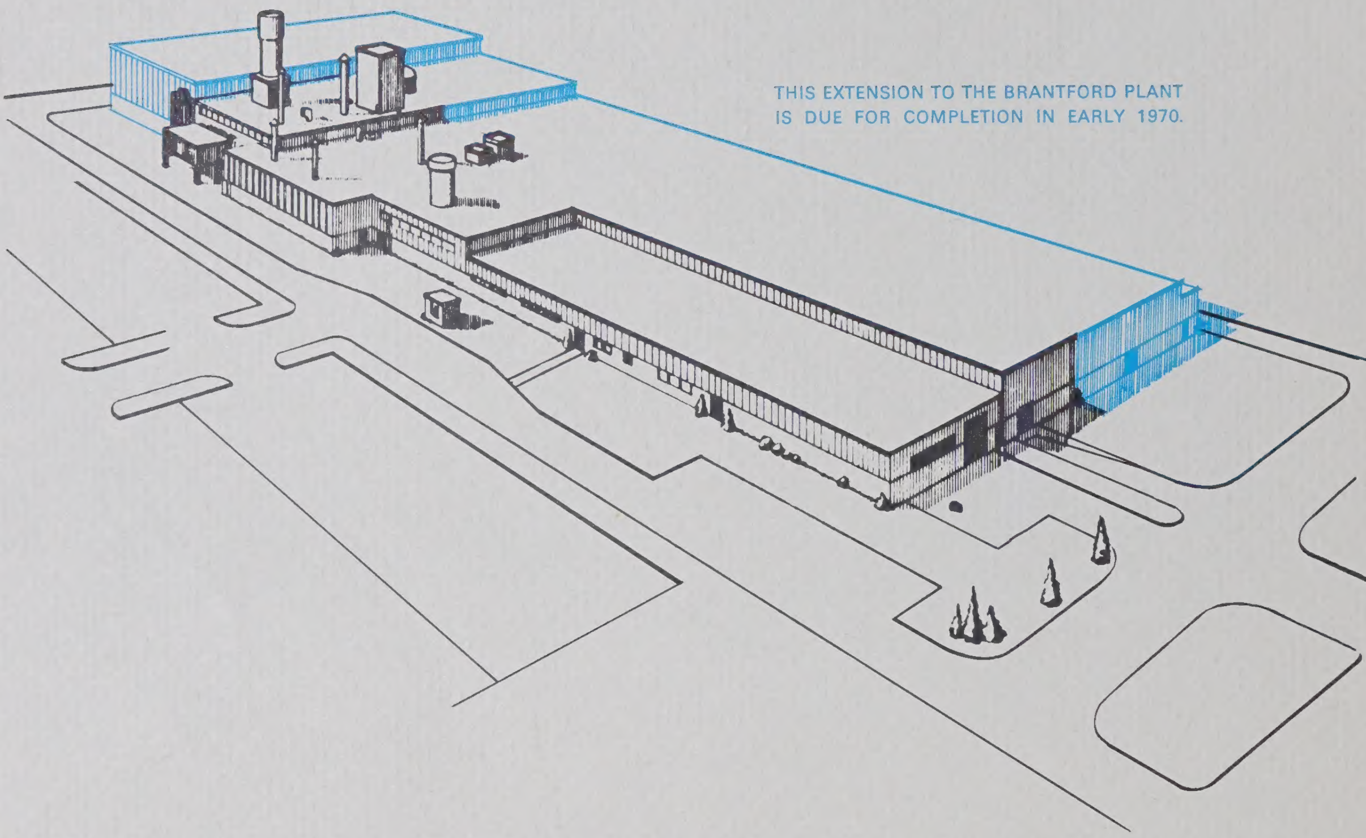
GALT MALLEABLE IRON LIMITED

ANNUAL REPORT 1968

Expansion

The additional facilities planned for 1969-70 will add a total of 20,200 square feet to the Brantford foundry.



Toward greater volume

Over the next two years the additions to the Brantford foundry will increase production capacity to 13,000 tons of malleable iron castings per year.

GALT MALLEABLE IRON LIMITED

Directors	D. L. Chandler Eliot Janeway H. C. Mackay H. J. Murphy K. E. Nelligan F. W. Simpson
Officers	D. L. Chandler, *Chairman of the Board* H. C. Mackay, *President* F. W. Simpson, *Secretary-Treasurer* C. A. Thompson, *Vice-President, Foundry Sales* N. A. Jones, *General Manager, Foundry Divisions*
Bankers	Royal Bank of Canada
Solicitors	Garvey, Ferriss & Murphy
Transfer Agents and Registrars	Guaranty Trust Company of Canada, Toronto
Auditors	Thorne, Gunn, Helliwell & Christenson, *Chartered Accountants*
Head Office	60 Kerr Street, Galt, Ontario

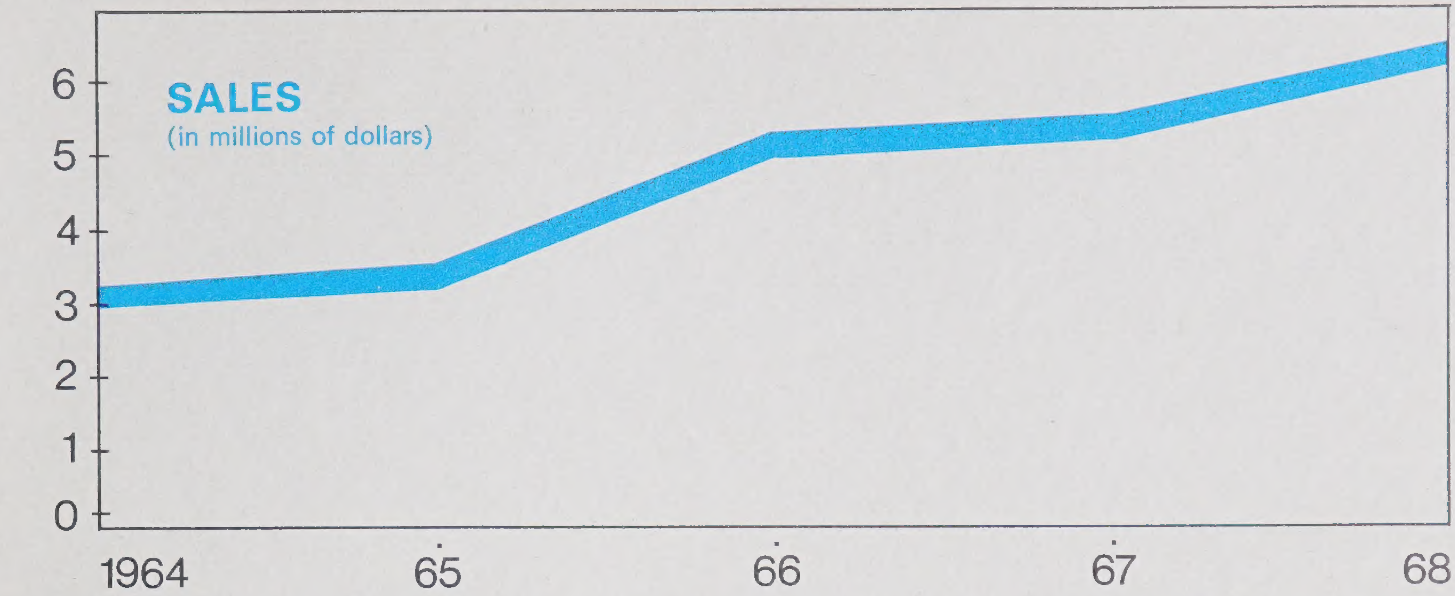
Five Year Financial Review

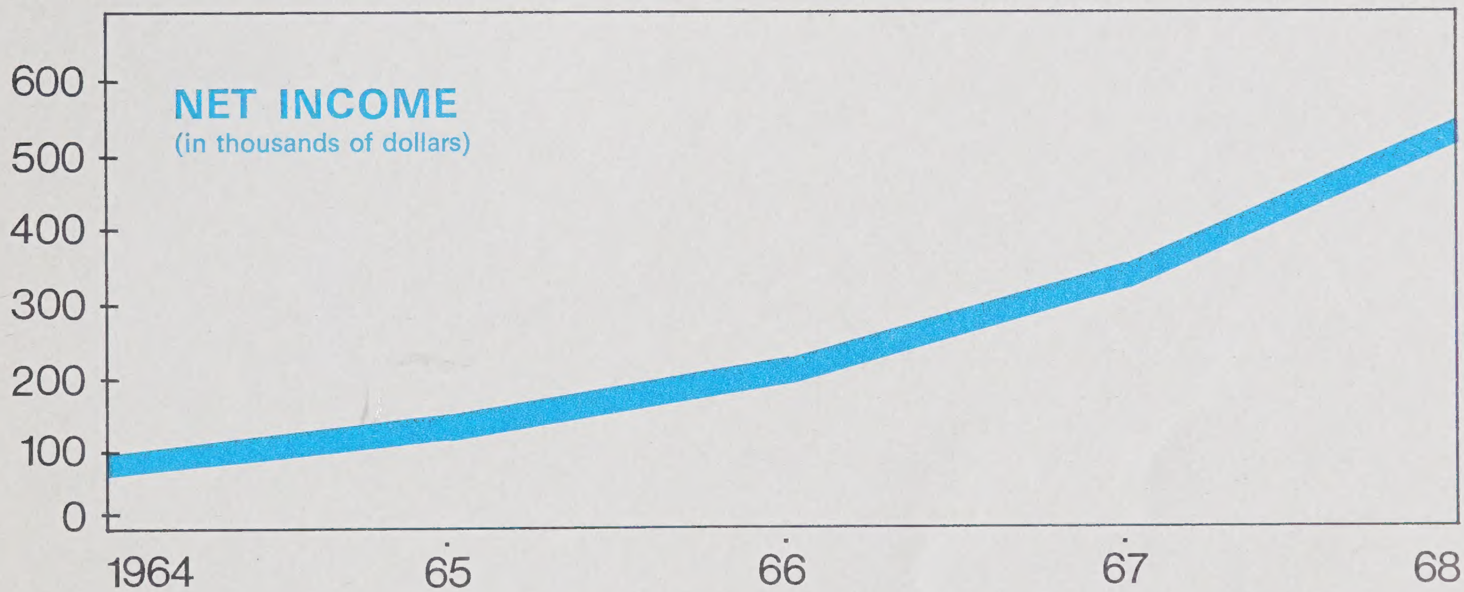
	1968	1967	1966*	1965†	1964
Statement of Income					
Sales	**$6,250,797**	$5,228,356	$5,116,731	$3,391,599	$3,136,814
Income before undernoted items	**979,313**	831,593	692,800	372,209	271,752
Profit on disposal of fixed assets		4,499			
	979,313	836,092	692,800	372,209	271,752
Depreciation	**153,998**	150,907	158,234	67,375	72,629
Amortization of deferred financial expense	**790**	790			
Interest on long-term debt:					
First mortgage income bonds	**82,169**	93,616			
Other	**28,811**	36,420	50,340	26,853	26,807
	265,768	281,733	208,574	94,228	99,436
Income before income taxes	**713,545**	554,359	484,226	277,981	172,316
Income taxes	**159,417**	214,117	280,879	142,803	84,205
Net income for the year before dividends to minority shareholders	**554,128**	340,242	203,347	135,178	88,111
Preference share dividends to minority shareholders of subsidiary company	**23,400**				
Net income for the year	**$ 530,728**	$ 340,242	$ 203,347	$ 135,178	$ 88,111
Financial and Other Information					
Working capital (deficiency)	**564,811**	349,379	214,054	(518,384)	478,640
Working capital ratio	**1.56-1**	1.24-1	1.20-1	.62-1	2.29-1
Long-term debt	**1,269,400**	1,465,000	1,662,365	562,500	497,500
Number of shares outstanding—First Preference	**336**	366	423	608	730
—Second Preference	**309**	334	397	427	449
—Common‡	**520,000**	476,000	476,000	400,000	400,000
Preference shareholders' equity	**64,500**	107,121	120,478	144,557	157,422
Common shareholders' equity	**2,110,843**	1,581,014	1,248,140	980,736	836,425
Total shareholders' equity	**2,175,343**	1,688,135	1,368,618	1,125,293	993,847
Earnings per common share‡	**1.01**	.71	.42	.34	.20
Percentage common share return on common equity	**24.9%**	21.2%	15.9%	13.1%	9.7%

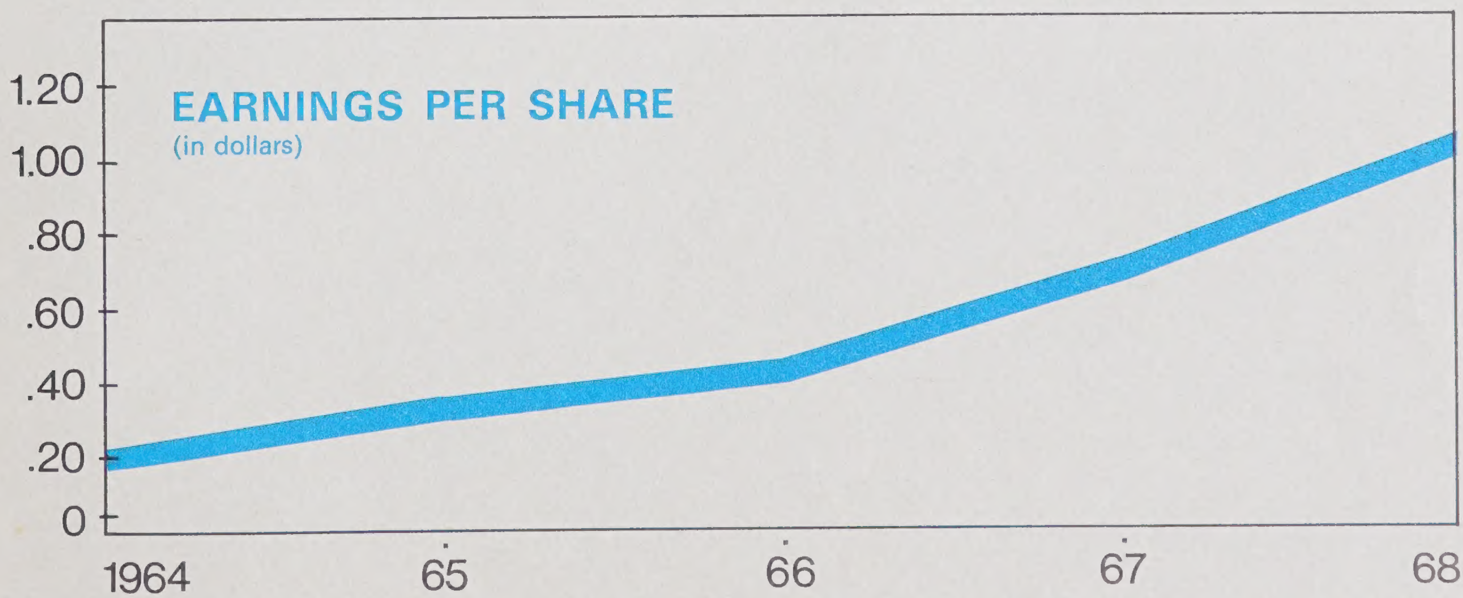
*The figures for 1966 are the consolidated operating results of Galt Malleable Iron Limited for the fourteen months ended December 31, 1966, and Galt-Brantford Malleable Limited for the twelve months ended January 13, 1967.

†The figures for 1965 are the consolidated operating results of Galt Malleable Iron Limited for the twelve months ended October 31, 1965, and Galt-Brantford Malleable Limited for the period from June 30, 1965, the date of incorporation to January 13, 1966.

‡The figures for the years 1964 and 1965 have been adjusted to reflect the subdivision of common shares effected in 1966.


SALES
(in millions of dollars)
6
5
4
3
2
1
0
1964
65
66
67
68


NET INCOME
(in thousands of dollars)
600
500
400
300
200
100
0
1964
65
66
67
68


EARNINGS PER SHARE
(in dollars)
1.20
1.00
.80
.60
.40
.20
0
1964
65
66
67
68

Report to Shareholders

The year 1968 marked another important step forward in your company's history of continuing growth and increasing profitability. It was also noteworthy for the fact that in July Galt Malleable Iron's common shares were listed for trading on The Toronto Stock Exchange, thus opening a new era in your company's corporate existence.

It is with pleasure that your directors present their report on the company's operations in 1968 together with the supporting consolidated financial statements for the period ended January 13, 1969, in respect of Galt-Brantford Malleable Limited and December 31, 1968 for Galt Malleable Iron Limited and its wholly-owned subsidiary, GMI Properties Limited.

As you will note from these statements and from the five-year financial review, the companies have maintained in 1968 the momentum of advance, both in sales and earnings. Results for the year under review show total sales of \$6,250,797, an increase of 20% over the previous year's figure of \$5,228,356. Net income after taxes for the year 1968 was \$530,728, compared to \$340,242 in 1967, an increase for the year of 56%.

During the period under review, the number of issued common shares of your company rose from 476,000 to 520,000, due to the exercise of outstanding stock options. Notwithstanding the larger equity basis, earnings per common share rose from 71¢ in 1967 to \$1.01 for the year 1968.

These higher earnings were due not only to intensified sales efforts but they also reflect increased operational efficiency resulting in better absorption of overheads and lower break-even points.

Had it not been for an increase of labour costs in the last quarter of 1968, the results of the company's operations for the year would have been even more impressive. The inevitable time lag between the wage settlement and the acceptance of increased selling prices by our customers resulted in earnings for the last quarter of 1968 being below projected estimates. This situation was rectified in the first quarter of the current year.

Capital expenditure during 1968 was \$104,813 divided in nearly equal amounts between our two foundries.

Improved earnings in 1968 enabled your company to pay the accumulated arrears on preference share dividends. Current preference dividend payments are up to date.

Your directors feel that you may be interested in an analysis of the company's sales as an indication of management's marketing policy. The table below provides a breakdown of Galt Malleable Iron's sales in 1968.

1968	*Total*	*Foundry Division*	*Hardware Division*
ALL SALES	\$6,250,797 (100%)	\$4,634,833 (74.1%)	\$1,615,964 (25.9%)
		Domestic	*United States*
		\$3,547,243 (56.75%)	\$2,703,554 (42.25%)
FOUNDRY SALES	\$4,634,833 (100%)	*Automotive* \$3,558,301 (76.8%)	*Other* \$1,076,532 (23.2%)
AUTOMOTIVE SALES	\$3,558,301 (100%)	*Domestic* \$ 854,747 (24%)	*United States* \$2,703,554 (76%)

The degree of diversification by product and market as shown in the above table provides, in the opinion of the directors, a picture of a healthy and balanced operation.

The Automotive Industry

With more than 55% of your company's production being in the automotive field, it is obvious that developments in the North American automobile industry have important bearing on Galt Malleable Iron's fortunes.

You may recall that in January, 1965, the United States-Canada Automotive Products Agreement was signed, abol-

ishing trade barriers between the two countries. This agreement permits movement of specific products, without duty, between parts manufacturers and automotive assemblers across the border. Thus a continent-wide integration of the automotive industry had been set in motion, creating, in effect, a North American "mini" common market.

This enlightened step enabled enterprising Canadian auto part manufacturers to enter the vast U.S. market. Those willing to invest in high-output equipment and to specialize in specific product areas have been the beneficiaries of substantial export orders. In addition, the "value added" clause in the agreement allows them to increase the domestic sales to Canadian automobile manufacturers in direct relation to the growing number of vehicles assembled in Canada.

There are domestic parts manufacturers who have found it difficult to compete with United States suppliers, but on the whole the automotive products agreement has proven most advantageous to the Canadian economy. It has provided stimulus to investment in plant and equipment and contributed dramatically to the growth of Canadian production and exports. It is estimated that domestic exports of automotive products in 1968 amounted to $2.6 billion, as compared to $177 million in 1964.

Foundry Expansion

Your management is confident of its ability to participate in the growth of the automotive industry. This confidence is reflected in your directors' recent decision to embark on a major expansion program designed to more than double the capacity of the company's Brantford foundry.

The total capital expenditure envisaged in this connection is about $2,750,000 and plans, already well advanced, call for completion of the project in two stages: $250,000 will be spent now to increase the present output of 6,000 tons to 7,000 tons per annum by June, 1969; the second phase, involving an expenditure of $2½ million and expected to be completed during the first quarter of 1970, will bring the capacity of the Brantford plant to 13,000 tons of malleable iron castings per year.

Sales Outlook

Current first quarter sales in the foundry division were most encouraging; expectations for the second quarter are tempered with caution in view of sluggish sales of passenger vehicles during the first three months of the year.

It may be of interest to shareholders that, as a result of orders obtained earlier, tooling for the new 1970 model year has been substantially completed.

In the hardware division, sales showed modest improvement over the comparable first quarter in 1968. The re-organization and consolidation planned for last year has been completed and management is confident that lower manufacturing costs and a higher sales volume will improve the earnings of this division in the current year.

Your directors wish to share with you their optimism as to the continuing growth and increasing profitability of your company. Modern technical facilities, particularly at the expanding Brantford plant, high product quality and excellent customer relations based on good service are the elements on which this optimism is based.

This report would be incomplete without management's recognition of the part all employees play in the growth of your company. As in previous years, it was their hard work and loyalty that contributed greatly to the company's success in 1968.

On behalf of the Board,

D. L. Chandler H. C. Mackay

D. L. CHANDLER	H. C. MACKAY
Chairman	*President*

Galt, Ontario
April 11, 1969

GALT MALLEABLE IRON LIMITED
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated Balance Sheet · December 31, 1968

(with comparative figures at December 31, 1967)

ASSETS

	1968	1967
CURRENT ASSETS		
Cash	$ 2,631	$ 17,909
Marketable securities, at cost (quoted market value 1968, $37,381; 1967, $26,573)	36,772	27,379
Accounts receivable	811,067	740,342
Income tax refund claim (note 3)		196,493
Bond subscriptions receivable and accrued interest		79,100
Pattern charges recoverable	7,441	14,882
Inventories (note 4)	693,669	702,200
Prepaid interest on income bonds		25,108
Other prepaid expenses	29,673	14,352
	1,581,253	1,817,765
OTHER ASSETS		
Investments, at cost	210,000	210,000
Special refundable tax	3,110	8,842
	213,110	218,842
FIXED ASSETS (note 5)		
Land	95,079	93,179
Buildings	1,699,457	1,677,210
Machinery and equipment	2,444,260	2,365,626
Tools and dies	11,971	11,971
Railway siding	3,951	3,951
	4,254,718	4,151,937
Less accumulated depreciation	1,189,735	1,037,369
	3,064,983	3,114,568
DEFERRED FINANCIAL EXPENSE, at cost less amortization	3,946	4,736
	$4,863,292	$5,155,911

Approved by the Board:

H. C. MACKAY, Director

F. W. SIMPSON, Director

LIABILITIES

	1968	1967
CURRENT LIABILITIES		
Bank advances, against which book debts and inventories have been pledged	**$ 303,908**	$ 509,569
Accounts payable and accrued liabilities	**442,357**	451,127
Income and other taxes payable	**199,977**	386,980
Principal instalments due within one year on long-term debt	**70,200**	120,710
	1,016,442	1,468,386
PROVISION FOR RESTORATION OF GRAVEL SITE		3,000
LONG-TERM DEBT (note 6)	**1,269,400**	1,465,000
DEFERRED INCOME TAXES (note 2)	**123,107**	141,390
MINORITY INTEREST IN PREFERENCE SHARES OF GALT-BRANTFORD MALLEABLE LIMITED	**279,000**	390,000

SHAREHOLDERS' EQUITY

	1968	1967
CAPITAL STOCK (note 7)		
Authorized:		
2,836 6% Cumulative sinking fund first preference shares, par value $100, redeemable at up to $105 per share (after giving effect to the redemption of 30 shares in 1968 and 57 shares in 1967)		
809 6¼% Cumulative participating second preference shares, par value $100, redeemable at up to $105 per share (after giving effect to the redemption of 25 shares in 1968 and 63 shares in 1967)		
800,000 Common shares without par value		
Issued:		
336 First preference shares (366 shares in 1967)	**33,600**	36,600
309 Second preference shares (334 in 1967)	**30,900**	33,400
520,000 Common shares (476,000 shares in 1967)	**614,702**	571,610
	679,202	641,610
CONTRIBUTED SURPLUS	**130,980**	130,537
RETAINED EARNINGS	**1,365,161**	915,988
	2,175,343	1,688,135
	$4,863,292	$5,155,911

COMMITMENTS (note 8)

Consolidated Statement of Income

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
Sales	$6,250,797	$5,228,356
Income before undernoted items	979,313	831,593
Profit on disposal of fixed assets		4,499
	979,313	836,092
Depreciation	153,998	150,907
Amortization of deferred financial expense	790	790
Interest on long-term debt		
First mortgage income bonds (note 6)	82,169	93,616
Other	28,811	36,420
	265,768	281,733
Income before income taxes	713,545	554,359
Income taxes (note 2)	159,417	214,117
Net income for the year before dividends to minority shareholders	554,128	340,242
Dividends on preference shares paid to minority shareholders of subsidiary company	23,400	
NET INCOME FOR THE YEAR	$ 530,728	$ 340,242

Consolidated Statement of Retained Earnings

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
BALANCE AT BEGINNING OF YEAR	$ 915,988	$ 574,131
Add		
Net income for the year	530,728	340,242
Discount on bonds purchased for cancellation	4,050	1,615
	1,450,766	915,988
Deduct		
Dividends		
First preference shares (including arrears of $18,512)	20,766	
Second preference shares (including arrears of $18,089)	20,272	
Adjustment of prior years' income taxes (note 3)	44,567	
	85,605	
BALANCE AT END OF YEAR	$1,365,161	$ 915,988

Consolidated Statement of Contributed Surplus

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
BALANCE AT BEGINNING OF YEAR	$ 130,537	$ 140,877
Add discount on preference share redemptions	443	
	130,980	140,877
Deduct		
Premium on preference share redemptions		90
Bonus paid (note 9)		10,250
		10,340
BALANCE AT END OF YEAR	$ 130,980	$ 130,537

GALT MALLEABLE IRON LIMITED
and subsidiary companies

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS		
Operations		
Net income for the year	$530,728	$340,242
Items not involving current funds		
Depreciation and amortization	154,788	151,697
Reduction of deferred income taxes	(18,283)	(22,050)
	667,233	469,889
Issue of common shares	43,092	
Proceeds of mortgage payable	10,800	
Special refundable tax	5,732	
Sale of fixed assets	400	1,196
Life insurance, cash surrender value		25,619
Provision for restoration of gravel site		3,000
Issue of sinking fund bonds		2,000
	727,257	501,704
APPLICATION OF FUNDS		
Addition to fixed assets	104,813	136,626
Long-term debt paid or included in current liabilities	202,350	197,750
Dividends on preference shares	41,038	
Adjustment of prior years' income taxes	44,567	
Preference shares redeemed		
By parent company (par value 1968, $5,500; 1967, $12,000)	5,057	12,090
By subsidiary company	111,000	
Payment relating to restoration of gravel site	3,000	
Bonus paid		10,250
Special refundable tax		4,137
Deferred financial expense		5,526
	511,825	366,379
INCREASE IN WORKING CAPITAL	215,432	135,325
WORKING CAPITAL AT BEGINNING OF YEAR	349,379	214,054
WORKING CAPITAL AT END OF YEAR	$564,811	$349,379

Notes to Consolidated Financial Statements

Year ended December 31, 1968

1. Basis of Consolidation

The subsidiary companies are G.M.I. Properties Limited, a wholly owned subsidiary, and Galt-Brantford Malleable Limited, a controlled subsidiary.

2. Income Taxes

(a) No income taxes are currently payable by Galt-Brantford Malleable Limited as the company's income is exempt from taxes for a three year period from January 14, 1966 to January 13, 1969 because the company is operating in a designated area.

(b) Depreciation of $303,145 provided in the accounts since the inception of Galt-Brantford Malleable Limited is available as a deduction for income tax purposes after the three year period has expired. A loss carried forward of $29,869 is available as a deduction for income tax purposes up to January 13, 1971. Related deferred income tax charges have not been recorded in the accounts.

(c) With respect to Galt-Brantford Malleable Limited, the accounting treatment of income taxes differs from the tax allocation basis under which a credit representing estimated future years' income tax reductions relating to depreciation provided for the year would be included in determining earnings for the current year. If the tax allocation basis had been followed in the current year, net income for the year would have been increased by $55,199.

(d) It is the company's practice with respect to Galt Malleable Iron Limited and G.M.I. Properties Limited to claim for income tax purposes capital cost allowance in amounts differing from depreciation recorded in the accounts with the result that income taxes payable for the year have been increased and deferred income taxes reduced by $18,283 ($22,050 in 1967).

3. Adjustment of Prior Years' Income Taxes

G.M.I. Properties Limited was assessed in 1966 for the years 1964 and 1965 on the basis of having received a benefit on the acquisition of fixed assets from the parent company. The subsidiary company appealed the assessment and contended that taxes and interest paid amounting to $196,493 should be refunded. During 1968 the subsidiary company was reassessed for these years and as a result taxes amounting to $44,567 (1964, $17,850; 1965, $26,717) have been charged to retained earnings.

4. Inventories

	1968	1967
Raw materials and supplies	$338,587	$306,495
Work in process and finished goods	355,082	395,705
	$693,669	$702,200

Raw materials and supplies are valued at lower of cost and replacement cost. Work in process and finished goods are valued at lower of cost and net realizable value.

5. Fixed Assets

Buildings, machinery and equipment are valued at appraised values at May 3, 1956, with subsequent additions at cost. Other fixed assets are at cost.

6. Long-Term Debt

	1968	1967
5¼% First mortgage sinking fund bonds due July 1, 1976	$ 252,000	$ 338,000
5½% General mortgage sinking fund bonds due July 1, 1981	230,000	305,500
	482,000	643,500
Less bonds purchased by company and not yet cancelled	2,000	51,500
	480,000	592,000
6¼% and 6½% First mortgage income bonds due January 15, 1974	850,000	942,000
Mortgage payable due January 2, 1977	9,600	
Advance from shareholder		25,000
Loan payable		26,710
	1,339,600	1,585,710
Less principal instalments included in current liabilities	70,200	120,710
	$1,269,400	$1,465,000

The income bonds, of which $780,000 bear interest at 6¼% per annum and $70,000 bear interest at 6½% per annum, represent a liability of Galt-Brantford Malleable Limited and are secured under a deed of trust and mortgage and supplemental deed which provide a first charge against fixed

assets and a floating charge on all other assets of the company.

Payment of interest on the income bonds is limited to the amount of retained earnings of Galt-Brantford Malleable Limited before payment of such interest.

Based on retained earnings available, full interest expense of $82,169 was provided in 1968 of which $57,061 relates to 1968 and $25,108 to 1967. Interest expense of $93,616 was provided in 1967 of which $37,571 related to 1967 and $56,045 to 1966.

The company and its subsidiaries have agreed to certain regulation of the following activities:

(a) Capital expenditures
(b) Issue and redemption of capital stock
(c) Payment of dividends
(d) Investments

Principal instalments on long-term debt due within each of the next five years are as follows:

1969	$ 70,200
1970	93,200
1971	100,578
1972	115,300
1973	115,300

7. Capital Stock

During 1968 the company issued 44,000 common shares for cash.

As part of the consideration of a financing arrangement, the company has undertaken to provide the lender 2,000 fully paid common shares of its capital stock.

8. Commitments

Galt-Brantford Malleable Limited is committed to the purchase of fixed assets in the approximate amount of $230,000 and is planning a plant expansion at an estimated cost of $2,500,000. Related additional long-term financing of up to $3,100,000 has been arranged.

9. Bonus Paid

In 1967 Galt Malleable Iron Limited paid $10,250 as a bonus to a purchaser of certain preference shares of a subsidiary company, Galt-Brantford Malleable Limited.

10. Other Statutory Information

Aggregate direct remuneration paid by the company and its subsidiaries to directors and senior officers of the company as defined by The Corporations Act of Ontario amounts to $118,785 ($90,046 in 1967).

Auditors' Report

To the Shareholders of
GALT MALLEABLE IRON LIMITED

We have examined the consolidated balance sheet of Galt Malleable Iron Limited and subsidiary companies as at December 31, 1968 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

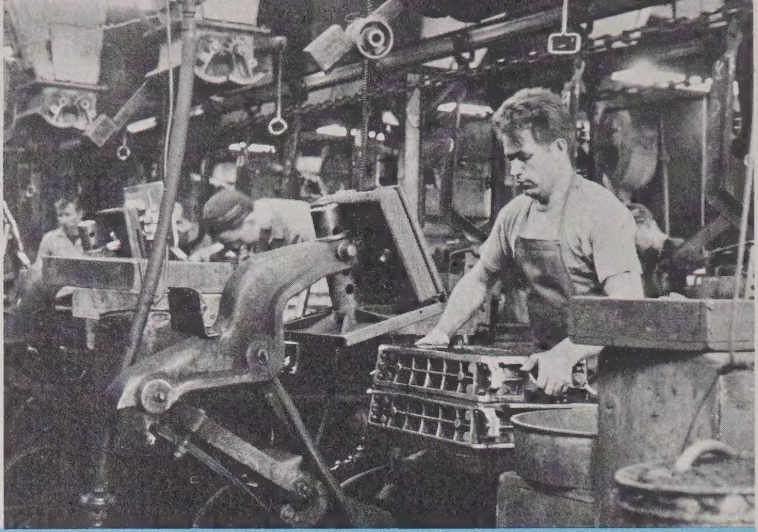
In our opinion, except with respect to deferred income taxes as set out in note 2(c), these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

Toronto, Canada
March 7, 1969

Galt Foundry Division

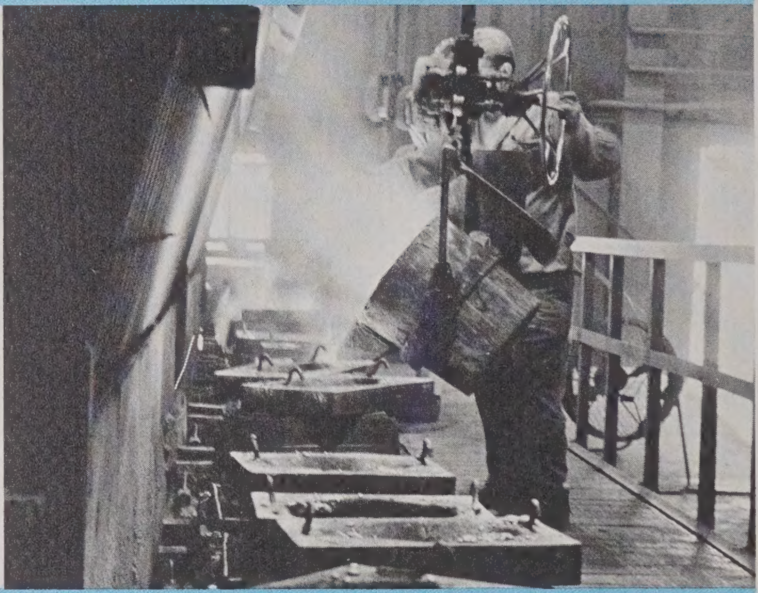
The foundry division in Galt, Ontario, established in 1906, has a capacity of 6,000 tons per year. It produces malleable iron castings from ½ lb. to 10 lbs. for the automotive, agricultural, mining, electrical power transmission, railroad and construction industries.



A molder at a jolt squeeze machine in the Galt foundry.

Galt-Brantford Foundry Division

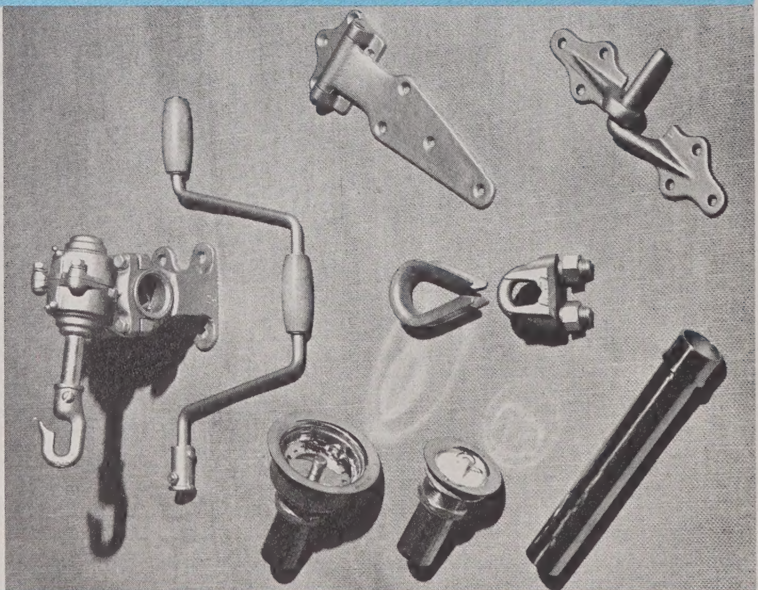
The modern completely mechanized facilities of the Brantford foundry went into production in 1966. The two-phase expansion planned for completion in 1970 will increase the capacity of the plant to 13,000 tons per year of malleable iron castings for the automotive and agricultural industries.



Metal being poured into molds on a moving platform in the Brantford foundry.

Galt Hardware Division

The hardware division began production in 1930. It supplies a wide variety of items including many malleable iron casting components, to the wholesale hardware and plumbing trades, to wire rope, awning, tent, boat trailer, truck body and original equipment manufacturers. The division's products are sold throughout Canada and exported to the United States, the British West Indies and the U.K.



A few typical products from the hardware division.

The Annual Meeting of Shareholders will be held on Tuesday, April 29, 1969, at 10 a.m. on the 11th floor, Board of Trade Building, 11 Adelaide Street West, Toronto, Ontario.

GALT, ONTARIO